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THE U.S. HOP MARKETING ORDER:
HE PRICE OF SUCCESS IS MISUNDERSTANDING**

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**The reader of this paper who is not familiar with the specifics of the current federal hop marketing order is referred to References 1 through 3 for background material.

Introduction

The Agricultural Marketing Act of 1937 (Amended) allows agricultural producers to collectively pursue orderly marketing programs to stabilize and improve farm income levels. The enabling act indicates that the various instruments[1] of orderly marketing can be pursued as long as necessary to achieve pairty prices with consumer interests protected.

Consumer advocates, the Federal Trade Commission, the Department of Justice, and other political groups have become increasingly concerned with the possibility that agricultural producers operating under the auspices of a federal marketing order would exercise the monopoly power given to them under the enabling legislation. The potential negative impacts would be in violation of antitrust laws and in some manner harm the consumers of the product by unduly enhancing the consumer price of the product.

Resulting partially from the concerns expressed above about the potential impacts of federal marketing orders and the philosophy of the President Reagan administration, a review of federal marketing orders was initiated in 1981. The review was initiated by the Secretary of Agriculture in response to the President's Task Force on Regulatory Relief. The economic review of federal marketing orders was conducted by a five member team. A report by the five member review team was filed with the U.S.D.A. and resulted in a set of guidelines being published by the U.S.D.A. in January, 1982 (Appendix A). The guidelines are very general in nature. A review of the guidelines in Appendix A reveals that there was concern over federal marketing orders which had

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[1] The instruments of orderly marketing that can be utilized are regulations concerning quality and quantity (volume), standardization of containers, promotion, research and development, regulating unfair trade practices, and providing price and other market information.

volume control programs.

The objectives of this paper are: 1) to present research results and general information about the U.S. hop industry which should alleviate most concerns of the nature stated above in the case of hops; and 2) to propose alterations to the current rules of the Federal Hop Marketing Order (Order No. 991) which will assure its continued operation in the best interests of the hop consumer and producer.

Research Results and Nature of Hop Supply and Demand Structures

Quantity Control Behavior

The hop marketing order has two provisions which could lead to monopolistic policies by the Hop Administrative Committee (HAC). These two provisions are: 1) quantity or volume regulation concerning the salable percentage each year; and 2) producer allotments.

In relation to the quantity control provision, the HAC meets prior to March 1 of each year to adopt a marketing policy for the ensuing marketing year. The HAC decides the quantity of hops (salable percentage) that can be marketed during the marketing year from the upcoming hop harvest. The HAC projects all supply and demand components for hops except for the salable quantity or percentage of U.S. produced hops.2/ The major objectives of the HAC in establishing the salable percentage is to establish orderly marketing conditions and capture an ever increasing share of the U.S. and foreign markets for U.S. produced hops.

It has been demonstrated through statistical analysis of the behavior of the HAC during the tenure of the current federal marketing order that the recommended salable percentages to the U.S. Secretary of

2/ See Reference 1 for a complete description of the procedure used by the HAC in projecting supply and demand components and setting the salable percentage.

Agriculture have not unduly restricted the flow of U.S. produced hops to the market. Resulting from the optimism of the HAC in expanding its share of the world hop market, the level of carryouts have been 10.2% greater than anticipated or the projected level of carryouts by the HAC (See References 1, 2, and 3 for statistical analysis). Thus, on the average a larger than needed supply of hops has been made available to the market by the HAC in recommending the salable percentage to the U.S. Secretary of Agriculture. Thus, the behavior of the HAC has not been in a monopolistic vein in terms of restricting the quantity of hops marketed.

Price and Acreage Stability

Despite the fact that the HAC behavior has resulted in larger than desired supplies of hops on the market, the marketing order has been successful in terms of stabilizing hop prices and acreages (Table 1). Beginning at the time when hop prices were first published through the marketing year 1965-66, the year prior to the start of Federal Order 991, the coefficient of variation corresponding to the seasonal average price was 53.0%. However, during the life of the current market order the coefficient of variation in price was less than one-half of that experienced during the time period prior to the existence of the order. Since there appears to have been no other major structural change in the hop industry that had occurred in the latter period other than the inception of the hop order, it appears that the dramatic increase in price stability can be attributed to the federal marketing order and the operation of the HAC.

Table 1. Measures of Price and Acreage Stability in the U.S. Hop Industry for selected time periods.

Statistical Measures

Marketing Years	Variable	Mean	Standard Deviation	Coefficient of Variation
1915-16 to 1965-66	price/lb	36.9 ¢/lb	19.5	53.0%
1966-67 to 1979-80	price/lb	70.3%	18.1	25.7%
1915-16 to 1965-66	total acreage	30643.0	7037.8	23.0%
1966-67 to 1979-80	total acreage	30214.0	1825.8	6.0%

The federal order also has had an impact on the stability of hop acreage. During the time period spanning the marketing years 1915-16 through 1965-66, the coefficient of variation for acreage was 23%. During the marketing years 1966-67 through 1979-80, which comprise the tenure of the current hop marketing order, the coefficient of variation was only 6.0%.

As demonstrated above, the federal marketing order for hops has achieved its orderly marketing objectives in terms of price (income) and quantity (acreage) stability while supplying a larger than necessary quantity of hops to the market. If the current marketing order were to be terminated or altered in such a manner such as to render the order ineffective, the instability which plagued the industry prior to the current marketing order would return. The instability would result from the facts that: 1) hops are a perennial crop; 2) hops have a lagged supply response; 3) the demand for hops is highly inelastic; and 4) the supply of hops is highly inelastic. The latter two factors are easily deciphered from the significant fluctuations in price and acreage that occurred previous to the current marketing order.

Price Enhancement

To measure any possible consumer price enhancement induced by the volume control provision of the federal order, the economic rent attributable to producer allotments is relevant. A historical series of allotment values is not available. However, in 1980 producer allotments were rented at a market rate of 15¢ per pound. Using this figure as a measure of economic rent accruing to holders of producer allotments, 10% of the 1980 seasonal average hop price of $1.50 per pound was attributable to the volume control provision of the federal order. In 1980 the hopping ratio (pounds of hops per 31 gallon barrel of beer) was 0.2 pounds. Thus, 30¢ worth of hops were used in each barrel of beer, and only 3¢ would be considered economic rent. Thus, with 331 12-ounce containers of beer in each barrel of beer, the consumer level price enhancement that could have occurred was .009¢ per 12-ounce container of beer. Such a small impact on price would be impossible to measure at the consumer level.

The above research results discuss most of the allegations concerning the federal hop marketing order and alleviate such concerns over potential monopolistic practices by the HAC. The only area not addressed is that of limited entry into the industry.

Entry and Exit

The question concerning entry and exit patterns in industries covered by federal marketing orders with producer allotment programs has never been addressed in quantifiable terms. The number of hop growers in the U.S. during the tenure of the current marketing order are presented in Table 2. Inspection of the time series data or the number of hop growers during the current marketing order indicates that the number

Table 2: Hop Industry Statistics and the U.S. Farm Population, 1966-1981.

Year	Number of hop growers	Acreage of hops	Acres of hops per grower	Average price of hops (¢/lb)	Total Farm Population in U.S. (1,000)
1966	348	32,200	93	46.7	11,595
1967	321	29,800	93	45.9	10,875
1968	293	28,400	97	47.2	10,454
1969	255	27,000	106	50.0	10,307
1970	236	27,000	114	56.0	9,712
1971	222	28,900	130	65.3	9,425
1972	219	29,700	136	71.4	9,610
1973	218	31,400	144	75.7	9,472
1974	215	32,400	151	79.3	9,264
1975	210	32,100	153	83.0	8,864
1976	200	30,900	155	84.8	8,253
1977	196	30,500	156	89.6	7,806
1978	193	30,900	160	89.8	8,005
1979	192	31,800	166	97.4	7,553
1980	212	37,100	175	150.0	7,241
1981	235	43,100	183	N.A.	N.A.

Source: 1. Personal correspondence with HAC (Reference 5).

2. U.S.D.A. Agricultural Statistics, 1981 (Reference 4).

of such operations had trended downward from 1966 through 1979. This time trend is parallel or in the same direction as the number of farmers or farm population[3/] in the U.S. which is also presented in Table 2. From 1966 through 1979, the farm population declined by 4.0 million or 35 percent. In the hop industry, the number of hop growers declined by 156 growers or 45 percent. Thus, there was a slightly accelerated rate exiting from the industry as compared to the entire rural population in the U.S. However, in contrast to the continued trend of people exiting the farm sector in the U.S. during the time period of 1979 through 1981, there was an increase in the number of hop growers from 192 to 235 or 22 percent. The hop industry has been able to respond to price signals in the 1970's and early 1980's by having new hop producers entering the industry and increasing the acreage and production levels of hops. This influx of growers has resulted in capturing an ever increasing share of the world hop market. Today, the U.S. is the number one country in exporting hops (See Reference 5). This upward trend in hop producers is in contrast to the continued trend of a decreasing farm population in the U.S. Thus, under the rules of the present hop marketing order there has been exiting and entering of the industry despite the concerns expressed in the published guidelines by the U.S.D.A. about barriers to entry.

Given that there has been entry and exiting, there is a further concern by both the U.S.D.A., hop producers, and people knowledgeable about the hop industry but not directly involved in hop production. This concern is the fact that the producer allotments or base have an economic value. It is a well accepted fact that any government program

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[3/] It would be more appropriate to compare the number of hop growers to the number of farmers or farms in the U.S. rather than the total farm population since the latter encompasses changing family size. However, the U.S.D.A. changed the definition of a farm in 1975 and it is not possible to obtain a consistent time series on the number of farms or farmers in the U.S.

(price support, loans, target prices, etc.) creates an economic value to the producers of the product under the program since such government action either insures and/or stabilizes the income producing ability of the resources of the farmer. In the case of most farm programs (commodity programs) the value of the program is imputed to some resource such as land. Thus, the producers covered by such programs have the value of their production resources increased. In the case of hops or other commodities such as mint or milk, the value of government programs is not tied to the land. In contrast it is transferable and attached to the allotment or base. Despite any efforts by the government or industry groups to reduce the value of such programs (allotment) to zero, it will never happen because of the fact that the allotment is a scarce item and will have "some" economic value. The only way in which the value of such government programs (allotments) will have zero value is either to render the programs completely ineffective or do away with them entirely. Since these programs have beneficial impacts on the producers and consumers of such products by achieving orderly marketing and stability in the use of resources in producing agricultural products, it must be concluded that programs such as marketing orders will be maintained since they are of value to society. Thus, the challenge faced by industries such as hops which have a producer allotment program is to minimize the value of the allotment and still maintain the aspects of the program which achieve the orderly marketing objectives. The next section of this paper will propose a method by which the value of allotments will be minimized and still allow the achievement of an orderly marketing program.

Proposed Changes in Hop Allotment Program

The current rules of the federal marketing order for hops allows the annual or permanent transfer of allotment or base from one producer or holder to another producer. These transfers are made based upon a negotiated price between the two parties involved. It is this price or economic rent which is of major concern as well as the transfer itself. The remaining part of this section will address both of these questions.

Need for Transfers

The U.S.D.A. in its initial approach to the concerns over producer allotment programs suggested that all transfers be eliminated (See Appendix B). While this approach on the surface appears to be the most straightforward and simplest manner in which to resolve the problem it is plagued with many problems.

First, the nature of hop production requires that some limited annual transfers be allowed. As an example, some hops are produced on leased land. If a hop producer should not have his contract for leasing or renting the land renewed for some reason, it is unfair to force the hop grower to give back to the HAC the allotment he has and to later reapply for it as implied by the U.S.D.A. initial position. It could take a producer at least one year to locate suitable land upon which to produce hops and thus he would not use his allotment for a given year or two years in the case of Oregon hop producers.[4/] Other factors such as fires or natural causes could also preclude the use of an allotment by a grower for a short period of time. Under such circumstances the hop grower shall not be forced to give up his allotment. If the U.S. hop industry attempts to capture an ever increasing share of the world hop market, it appears reasonable that a grower under such circumstances should be able to transfer away his allotment so that it can be used by

[4/] Oregon hop producers usually do not trellis their hops the first year and thus do not obtain a harvestable crop until the second year in establishing a hop yard.

other hop growers to market their hops.

The current rules of the hop marketing order requires that all temporary transfers occur before March 31 before the ensuing marketing year. It is suggested after consultation with industry leaders and the management of the order that all unused allotment after harvest be reverted back to the HAC for redistribution for that marketing year on a pro-rata basis with no charge to growers producing in excess of their allotment.[5/] This suggested change will have two major impacts: 1) it will force hop producers with excessive allotments to make such allotments available to other growers before March 31 since they will realize that the allotment will be used at no charge by such growers after harvest through the HAC; and 2) minimize the economic rent or value associated with the base.

Temporary transfers are needed for two basic reasons. First, a grower cannot predict with a great deal of accuracy the size of crop he will have by March 31 of each growing year since the hop plant has hardly started to grow. Thus, the grower needs some buffer amount of allotment to account for variations in his yield. In addition, hop yards are periodically rotated from field to field and there are times when a given hop producer may not need his allotment. Second, the temporary transfers allow growers to enter hop production by renting part of their allotment rather than a complete outright purchase at the time they enter the industry. Thus, the temporary transfers lower any financial barriers to entry.

In terms of permanent transfers, such transfers should be allowed from one generation of hop producers within a family or producing enti-

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5/ If hops are produced in excess of the allotment available, each grower will place in the reserve pool his pro-rata share.

ties. How this transfer is obtained is not of concern to the HAC. Thus, by only allowing transfers from one generation to another generation of hop producers within the same basic production unit or entity, it will be possible for the industry to provide a vehicle via which new generations of producers can enter the industry.[6/]

It is suggested that the "bona fide" effort requirement be tightened. Currently under the rules of the hop marketing order, the bona effort requirement states that growers must have sufficient hops under trellis on May 1 of each year to produce 93 percent of their annual allotment for such year, based on the highest of their past 5-year average yields. In the case of a new hop producer without an historical yield record, the state yield averages would be used. With this rule and other current rules of the order, a grower can meet this bona fide effort requirement by transferring that allotment which meets or exceeds the 93 percent level to other producers on a temporary basis.

It is suggested that the bona fide effort requirement be raised to 98 percent and that temporary transfers of allotment in excess of the 98 percent be allowed on a temporary basis. If allotment in excess of 2 percent are not transferred they will revert back to the HAC for filling deficiencies at no cost. By using such excess allotments to fill deficiencies, it will allow the U.S. hop industry to capture a larger share of the world market when the demand is strong and the U.S. has the hops to sell in such international trade channels. If this change is implemented, any allotment in excess of the bona fide effort requirement will revert back to the HAC for redistribution.

6/ It could be argued that if a given hop producer, family, and entity should cease the production of hops, then that allotment should not be transferred to another party by any means (sold, leased, traded, or given). Such allotment should be reverted back to the HAC for redistribution (this item will be discussed later). However, this would decrease the value of the productive resources of the grower which was earned over time. If this line of reasoning is followed, it would only be equitable for the government to reduce the value of land used in producing other

The above suggested changes of: 1) forcing unused allotment back to the HAC to be used by other growers at no cost after harvest; 2) allowing permanent transfers of allotments between generations within the same entity; and 3) tightening of the bona fide effort will have the impact of placing the allotment in the hands of the actual hop growers.

Entry of New Growers

As indicated above, there has been both entry and exiting from the hop industry. However, to facilitate such mobility, the following suggested change is made in reference to the federal hop marketing order.

The suggested change concerns the making available allotment each year as a percent of the salable percentage. Each year when the salable percentage is increased,[7/] 50 percent of the increase in the salable percentage will be made available as permanent base to new producers and existing producers on an equal basis of one-half to each group. If new producers do not apply for their share of allotment it shall go to existing growers. The bona fide effort requirement must be met within one year (2 years in Oregon) by new producers.

The above suggestion concerning allotment transfers (temporary and permanent), bona fide effort requirement, and the explicit provision providing for the entry of new producers will hopefully place the allotment in the hands of the "bona fide" hop grower, reduce the economic

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[7/] It could be argued that in those years when the salable percentage is constant or decreasing, one percent of the salable percentage would be made available for redistribution to new and existing producers. Fifty percent of the one percent of the salable percentage will be available to new producers a permanent base and the other 50 percent to existing producers. If the amount allocated to new producers is not applied for by new producers, it shall revert to the existing producers. Again, the new producer would have to meet the bona fide effort requirement within one or two years. The major problem with this line of reasoning is that hops are contracted for many years in advance. If the salable percentage is decreasing, and a given proportion of the salable percentage is redistributed to new growers, the legal problems of cutting across contracts would be encountered.

value associated with the allotment, and provide a vehicle via which new producers can enter the hop industry. The allotment will still have economic value because it will always be a scarce item if the order is effective in achieving its goals of orderly marketing. However, the value of the allotment will be minimized given the suggested changes.

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APPENDIX A

Guidelines for Fruit, Vegetable, and Specialty Crop Marketing Orders

GUIDELINES FOR FRUIT, VEGETABLE, & SPECIALTY CROP MARKETING ORDERS

USDA - January 25, 1982

The Agricultural Marketing Agreement Act. of 1937 (Act) authorizes the Secretary of Agriculture to administer marketing order programs for fruits, vegetables, and specialty crops. In response to the President's Task Force on Regulatory Relief, the Secretary of Agriculture initiated an economic review of Federal marketing orders in May 1981. This review was undertaken to determine how well the programs are meeting the Administration's goals of —

—Reducing Federal government regulation;

—Maximizing producer returns through open and competitive marketing;

—Achieving more efficient allocation of resources;

—Supporting the concept of self-help programs.

The Department's economic review evaluated the impact of the numerous programs permitted through the marketing order system. After extensive analysis, the report concluded that orders have the potential to effectively stabilize supplies and prices but some may impose inefficiency on the production and marketing system.

Recognizing the inherent instability in producing and marketing agricultural commodities in general, and these crops in particular, the Secretary intends to operate marketing order programs in a manner to reduce extreme fluctuations in supplies and prices. Reducing risks to both buyers and sellers provides producers and consumers a degree of protection against extreme losses arising from economic and natural causes.

In keeping with the Administration's objectives and those of the Act, the Secretary will require some adjustments in programs that restrict entry, limit supply, or perpetuate over-supply of commodities. The extent of Federal involvement will be consistent with the efficient use of the nation's resources in the interest of producers and the general public.

The following general guidelines will be applied to all Federal marketing Orders covering fruits, vegetables, and specialty crops. Those guidelines will be applied to each marketing order on a case-by-case basis, after full duscussion with the industries involved.

VOLUME CONTROL PROGRAMS

Producer Allotment Programs: (celery, cranberries, spearmint and hops)

The Department's recent economic review pointed out that producer allotment programs have the potential for limiting supply, causing underinvestment by industry, and reducing open competition by restricting entry of new producers.

While the allotment system is contrary to the general policy of this Administration, it does have a statutory basis. To balance policy goals with statutory requirements, the Secretary will carry out these programs in a manner that will eliminate barriers to entry. Where changes in existing programs are necessary, the Secretary will work with the affected industries toward gradual adjustments.

Market Allocation Programs: (i.e., raisins, walnuts, and other dried fruit and nuts)

The Secretary recognizes that market allocation programs can be beneficial to producers when used properly. The programs must allow individual incentive and product innovation, they should not be used to inhibit long-run market expansion or to encourage or continue chronic over-production. The Secretary intends to evaluate annually the economic situation in each industry where market allocations are proposed to ensure that regulations are designed with these objectives in mind.

The Secretary will evaluate committee recommendations as to their possible long-term effects on price differentials between markets and the percentages of production going to the different markets. This is to ensure that market adjustment and public interest concerns

The industry must monitor the effects of continual use of annual regulations, so that regular supply and demand signals from the market are not distorted. The committees must submit, and the Secretary will consider, market allocation recommendations separately from all other features available under the program, including prorates.

Prorates: (i.e., various citrus fruits)

Prorates are measures which regulate the short-term flow of a commodity to market. Specifically, the term "prorate" refers to the establishment of a maximum quantity a handler may ship during a limited time period. Recommendations for prorates that have an allocative effect will be considered separately.

This Administration believes that prorates can be a valuable tool for effective marketing serving the interests of both producers and consumers through market stabilization and extension of the season. This type of program may be used to prevent temporary market gluts and correspondingly depressed prices by smoothing out product flow. It contributes to more efficient use of handling and distribution facilities. However, maximum effectiveness would require "perfect" market information and administration. All too often one or both of these are unattainable. Consequently, prorates should be used guardedly so as to avoid stifling individual incentive or overly restricting market supplies.

With a view toward preserving individual incentives, the Secretary is asking each industry using the prorate feature to assess its own unique problems and needs and recommend ways to best use prorate provisions consistent with these guidelines. Among the approaches that affected committees should consider:

(1) Use of prorate only during a limited part of the season, i.e., a limited number of weeks;

(2) Expansion of the specific time frame included in each prorate, i.e., two, three, or four week prorates instead of only weekly;

(3) A combination of a partial season prorate and expanded time frame.

The Secretary believes that changes in the present system would permit greater intra-seasonal flexibilities for individual handlers while at the same time protecting the viability of the program.

Reserve Pools: (include most of market allocation and producer allotment programs)

Reserve pools can be used to control the extreme fluctuations in supplies and prices that often plague agriculture. However, the reserve program should not result in stockpiling of certain commodities with little or no market outlet. Therefore, when an industry committee recommends a reserve, it must clearly state the intended disposition of the reserve. This should include several alternatives including a "most likely" projection and should be revised by the committee to reflect changing supply or market conditions.

Shipping Holidays: (used only occasionally by 1 or 2 commodities)

Shipping holidays are intended to reduce market supply fluctuations by requiring commodity handlers to refrain from shipping a certain commodity for a short period of time. Although many marketers believe that shipping holidays aid market stability and prevent market deterioration, strong evidence to support or refute this concept has not been presented. The undetermined value of these measures raises the question of the need for government involvement. Future recommendations will therefore be carefully considered by the Department.

QUALITY PROVISIONS

Quality Controls: (i.e., potatoes, onions, pears, and other soft fruits and vegetables)

Quality provisions are the most frequently used feature of marketing orders and are usually in the form of minimum grade and/or size regulations. This provides consumers with a high quality product, thus serving the long-term interests of producers, since a good quality image can lead to long-term market expansion. However, with crops which reflect the uncertainties of weather, quality requirements need to be flexible enough to maximize the marketing of all fruits and vegetables suitable for consumption in fresh form.

Industry should be cautioned that use of quality regulations primarily as a form of supply control is contrary to Administration policy. Therefore, the Department will continue to evaluate the use of this feature with particular emphasis on the following three areas: (1) Whether quality controls have varied significantly from season to season or within seasons, (2) Whether the percentage of product meeting minimum quality standards has been declining, or (3) Whether the standards have been tightened over the years.

Grade and size regulations keep low quality produce from the market. Some argue that this lower quality produce would be attractive to some consumers. In view of this, industries should consider changes that would allow the marketing of the off-grade/size commodity within the local production area as well as consider the establishment of a minimum quantity exemption from the quality standard. If the industry believes that this type of approach could not or should not be followed, it should present convincing evidence to the Deparment. A number of existing orders already have provisions of this type.

Charitable contributions are exempted from regulation in most orders. This Administration strongly endorses the concept of charitable contributions and encourages expanded use of those provisions.

IMPORT REQUIREMENTS UNDER SECTION 608e

Section 608e of the Agricultural Marketing Agreement Act imposes the same quality requirements on an imported commodity as are imposed on a domestic commodity. It does not seek to limit imports but rather to ensure that low quality imports do not undermine the purpose of the Act, threatening the domestic market for U.S. crops.

U.S. policies on foreign trade must take into consideration requirements of a number of international agreements to which the United States is party. Accordingly, the Department will review any proposed marketing order legislation or regulation to ensure that its provisions and impact are compatible with the intent of Section 608e and with these international agreements.

In conducting this review, the Agricultural Marketing Service will examine all available information and will maintain close contact with other government agencies as well as industry sources. Consequently, industries are cautioned to carefully examine future recommendations to make sure that they are consistent with the spirit and intent of the law and U.S. international obligations.

RESEARCH AND PROMOTION

Fruit and vegetable marketing orders authorize the collection of funds for use in production and marketing research and for advertising and promotion. The Administration supports production and marketing research because it can help producers respond rapidly to acute problems that reduce yields. Research can also provide new techniques to increase yields and reduce production and marketing costs in the future. Advertising and promotion can contribute to economic efficiency by helping consumers make better informed decisions.

BLOC-VOTING

When referenda are conducted either on a proposed order or amendment of an existing order, the law allows a cooperative to vote for its membership. This is referred to as bloc-voting. Although this is provided for under the statute, the Secretary strongly encourages cooperatives to refrain from bloc-voting. It is believed that individual voting will better represent the interests of the industry and will more clearly demonstrate the desires of the entire industry, both to the Department and the general public.

ADMINISTRATIVE PROCEDURES

Responsibility of Committees and USDA

The Act places upon the Secretary of Agriculture the full authority to assure the proper operation of marketing orders. Marketing order committees have a responsibility to make the most informed recommendations possible in striving for this objective. Therefore, it is imperative that all market order administrative committees provide the Secretary, nalytical basis for their recommendations. Failure of the administrative committee to rovide this information in a complete and timely manner could result in delays of the easonal implementation of provisions of a particular marketing order. At the same time, he Secretary continues to accept his responsibility for timely action.

COMMITTEE TENURE

The economic review suggested establishing a limit on tenure to improve representation nd allow for different and more contemporary ideas. In view of this, the Secretary will equire that all committee memberships be limited in tenure. The Department will work with ach committee to develop an appropriate time frame. The Secretary also encourages all committee members to take a very active role in all phases of marketing order administration.

PERIODIC REFERENDA

Some marketing orders provide for periodic referenda but most do not. The Secretary believes these referenda are in the public interest. They provide the industry with a means to regularly reassess the value of marketing orders and keep the Department informed of the wishes of the majority of the industry. Therefore, the Secretary is requiring that periodic referenda be conducted for each order. USDA will work with each committee in development of a time frame appropriate for each order.

CONCLUSION

The role of the Department of Agriculture is to develop and implement agricultural policies that are in the public interest. Marketing orders that are wisely constructed, appropriately utilized, and effectively administered are part of such a policy. However, as with any other program, there are possibilities for misuse. These preceding guidelines are established to assure that abuse does not occur and to provide a means of better understanding of the boundaries, both to the industry and the general public.

APPENDIX B

Initial Approach on Allotment Orders Proposed by the USDA

U. S. HOP ADMINISTRATIVE COMMITTEE 1002 Corbett Bldg., 430 S.W. Morrison Portland, Oregon 97204 (Phone: 503-224-1823)

GR. BUL. 82-3

March 22, 1982

TO: All Growers, Handlers and Interested Parties

SUBJECT: 1982 Salable Percentage and Compliance with Producer Allotment "Guidelines

At the request of Mildred Thymian, Administrator AMS, USDA, the 13 members of the HAC were asked to come into Portland last Friday, March 19, to discuss future compliance with the Guidelines. Since these persons came in at her request, this was neither a Committee nor a Subcommittee meeting. She stated in recent meetings in Washington, D.C., two types of concepts have been proposed for incorporation in producer allotment programs. These were set forth in the following written suggestions she handed out last Friday:

INITIAL APPROACH ON ALLOTMENT ORDERS

"This concept has two features.

First, it is suggested that allotment and base not be permitted to be transferred (sold, leased, traded, or given) to another individual (person, partnership, or corporation). Thus, when a producer ceases to produce hops for any reason, that producer base must revert to the Committee for redistribution.

Secondly, an additional base quantity equal to five percent of the preceding year's base must also be made available for distribution each year.

The base from both of these sources must be distributed to new industry entrants and to existing producers who wish to expand their operations, such distribution each year being 1/3 to existing producers and 2/3 to new producers. The committee shall develop and propose to the Department rules and provisions that offer such new base to both classes of growers on an equitable basis. An annual increase of base of this magnitude will result in a progressive reduction in the value of base and thus a gradual, but eventual, elimination of barrier to entry."

She then requested the Committee adopt a resolution showing they were taking steps to develop specific proposals to incorporate the above concepts in the Hop Order so such could be included in the background justification in the Federal Register for the 1982 salable percentage of 135%.

After considerable discussion the Committee agreed to respond to these two requests by December 15, 1982 without any commitment as to the nature of such response. Such will provide time to evaluate and discuss further with the Department some of the apparent ramifications of the above proposal of which they may not be aware as well as to hold general grower meetings in each of the growing areas to obtain their views.

She then stated if a written resolution along these lines were developed that could be included as a background statement justifying issuance of the salable percentage of 135% for the 1982 crop, such notice could be approved and signed for publication in the Federal Register the first of this week. All handlers will be notified by telephone as soon as word has been received such has been signed.

To carry out this request, the following resolution was drafted in cooperation with Mrs. Thymian last Friday and ratified at a telephone conference call of HAC members and alternates earlier this morning during which HAB members and alternates also participated.

"In order to minimize disruption this proposed regulation (i.e., 130% salable for 1982) is being issued with the understanding that the Hop Administrative Committee will initiate action in 1982 under Marketing Order No. 991 so that operations under the program will conform to the Department's Guidelines for fruit, vegetable, and specialty crop marketing orders, issued January 25, 1982. Action has already been taken towards compliance with the guidelines as follows:

1. To refrain from initiating legislation to qualify under Sec. 608(e) of the Agric. Mktg. Agreement Act of 1937 as amended (i.e., this would require imports to meet same minimum leaf and stem requirements as we might establish for U.S. hops under the Hop Order);

2. Adoption of a resolution by the only Cooperative in the hop industry to refrain from block voting in future referenda;

3. Amendment of the current Committee Nomination Background Statement form to include a stipulation that henceforth the nominee will not serve more than four subsequent consecutive terms of two years each;

4. And to respond by December 15, 1982 to the Department's request relating to issuance of additional base to new and existing growers.

In addition to the above action on the Guidelines, a response will also be made by December 15, 1982 to the Department's request relating to transfer of base.

A subcommittee has been appointed to study the above matters."

The general impression was also left that the response or proposals developed by December 15, 1982 will be taken into consideration in reviewing the 1983 salable percentage.

Arno Reifenberg, Regional General Councel for USDA, was also present and stated that the proposal to issue additional base up to 5% of the total industry base could be accomplished by administrative rule. Mrs. Thymian agreed such would be acceptable. He stated, however, it would appear the proposed restrictions on transfer of base would require an amendment to the Order.

There are several unanswered administrative, legal and economic questions that need to be resolved before the ramifications of the above two proposals can be properly evaluated. Such will be reviewed at general grower meetings within the industry as well as with various USDA and other officials and representatives in Washington, D.C. in the months ahead.

U. S. HOP ADMINISTRATIVE COMMITTEE

Robert H. Eaton

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